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IN THE

Supreme Court of the United States

October Term, 1979

No. 79-1742

AMERICAN STERILIZER COMPANY,
Petitioner,

v.

SYBRON CORPORATION and CASTLE COMPANY,
a Division of Sybron Corporation,
Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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CASE CITED.

Lear v. Adkins, 395 U.S. 653 (1969) 4,5,6,7,8

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Opinions Below

Respondent has nothing further to add for purposes of this petition.

Jurisdiction

Respondent does not question the jurisdiction set forth in the petition.

Questions Presented

Neither of the questions as stated by petition is raised by the decisions below in this case; moreover, the first question as it reads is inaccurate and incomplete and the second question is moot and incomplete.

Regarding the first question, the Circuit Court did not hold that anything was the "patented item" nor that any royalties were due "under an issued patent"; moreover, this question fails to raise the time limitation of royalties decided by the lower court. Therefore, the first question presented might more accurately and completely be stated as follows:

> "Is it in conflict with Lear v. Adkins, 395 U.S. 653 (1969) to require a licensee to pay royalties under definitions in the license agreement only up until the time the licensee is contesting validity of the licensed patents?"

Clearly, the answer to this question as accurately rephrased is No.

Regarding the second question as recited in the petition, it is incomplete because the question is not limited to royalties up until the petitioner was contesting validity which was the holding of both the lower courts.

Moreover, the second question is moot for two reasons. Both the lower courts held the patent to be invalid, therefore there was no reason to decide scope of the patent, since royalties were due under definitions in the license agreement until the petitioner was at least contesting validity. Also, the second question is moot because the District Court in its November 2, 1978 decision did in fact decide the issue of scope of the patent, which petitioner's second question necessarily requires not to have been decided.

The second question might more accurately and completely be stated as follows:

> "Can a contractual claim for royalties due under the definitions in the license agreement and only up until the time the licensee is contesting validity of the licensed patents prevail so as to deny a licensee the right to have scope of the patent determined when the patent has already been held invalid?"

Clearly the answer to this question as accurately rephrased is Yes.

Statement of the Case

Petitioner's statement of the case, as far as it goes, is accurate. It omits, however, several critical facts.

1. The petitioner neglects to point out that the contracting parties were not content to rely merely on the claim language of the licensed patent to define the process requiring a royalty payment. Instead, the contract contained (at petitioner's insistence) a negotiated definition of what would be an "Infringing Method" requiring the payment of royalties. Also included in the contract were several definitions of what constituted examples of "Non-Infringing Methods" not requiring royalty payment. The holding of the District Court in its opinion of May 24, 1974 (App. A, p. 1a) was more than merely a holding that the Medallion process came within the license agreement, it was a holding that "the Medallion cycle contemplates the 3 infringed (sic) methods in the license contract which the parties executed." (App. A, p. 6a). This holding of the District Court was never appealed and still stands. As the Circuit Court stated in its October 10, 1979 decision: "Amsco has not argued that the

Medallion sterilizer [what the petition refers to as 'a new item'] was not within the definition of 'Infringing Method' in the licensing agreement. We, therefore, must accept the district court's determination that the Medallion sterilizer was within the scope of the licensing agreement'" (App. 79a).

2. The petitioner's statement also omits mentioning that the license agreement is a "package license" including a license to a second United States patent and two Canadian patents in addition to the contested U.S. patent.

3. The petitioner's statement also fails to mention that the contract between the parties is still in force. The petitioner has yet to terminate or repudiate the license agreement and still enjoys the benefit of a license under the non-contested patents even though petitioners have the right to terminate the agreement at any time, at its option, on thirty (30) days' notice.

REASONS FOR DENYING THE WRIT

Neither of the questions as stated by petition is raised by the decisions below in this case; moreover, the first question as it reads is inaccurate and incomplete and the second question is moot and incomplete, all for the reasons stated above under "Questions Presented".

1. Reasons For Denying Question No. 1

Insofar as the first question is concerned, the Court of Appeals' decision in this case is not in conflict with this Court's decision of *Lear v. Adkins*, 395 U.S. 653 (1969).

The petitioner at page 7 of its petition criticizes the decision of the Court below saying that:

> "The decision below directly impairs the incentive for a licensee, who has replaced a patented idea with a new one, to initiate lengthy court proceedings to challenge validity; indeed, the decision establishes liability, rather than freeing the licensee from liability, at least from time he refuses to pay contractual royalties."

Quite to the contrary, the decision below (insofar as the questions raised by this Petition) is completely in accord with the policy formulated by this Court in *Lear v. Adkins (supra)* because the Circuit Court had already sent the case back for trial of validity and in the criticized decision had affirmed invalidity, thereby giving a licensee every incentive to challenge validity at an early date. Under the facts of this case the petitioner was never contesting the validity of any patent prior to the filing of its declaratory judgment. As stated by the Third Circuit Court of Appeals in this case:

> "There is no indication that at these negotiations, Amsco informed Sybron that the McDonald patent's validity was in issue. The first clear indication of Amsco's intent to challenge the McDonald patent came with the filing of the present lawsuit in 1969. Thus, to relieve Amsco from royalty obligations prior to the initiation of the lawsuit would not further Lear's policy of encouraging licensees to promptly challenge a patent's validity. We therefore, believe the district court was correct in selecting the date the lawsuit was filed as the date from which Amsco's royalty obligation under the licensing agreement ceased.[10]" (App. 82a) (emphasis added).

In this case, the earliest possible date petitioner can establish as having challenged the validity of the licensed patent is the date on which it filed the declaratory judgment action and in accordance with the policy as stated in *Lear*, petitioner should owe a royalty under the license at least up until that date.

2. Reasons For Denying Question No. 2

Insofar as the second question is concerned, the Court of Appeals' decision in this case is not in conflict with federal patent policy because the royalties held to be due were only royalties up until the petitioner was contesting validity.

Moreover, the second question is moot for two reasons as stated above under "Questions Presented". Both the lower courts held the patent to be invalid, therefore there was no reason to decide scope of the patent, since royalties were due under definitions in the license agreement.

Under the facts of this case, as set out above, the parties did not rely upon the claims of the contested patent as a basis of royalty payment. Instead, the parties relied on a negotiated definition of what would constitute the basis for the royalty payment.

Requiring the petitioner to pay royalties up to the time it was contesting validity was not in conflict with, nor does it limit, the application of federal patent policies favoring free competition in ideas in the public domain. Since the parties, by contract, agreed upon a definition for the award of the royalties apart from the language in the claims of the contested patent, the state law of contract controls the agreement between the parties and not federal patent law.

Petitioner by its writ is also attempting to expand the doctrine of *Lear v. Adkins* beyond the meets and bounds of this Court's decision in that case. In this respect, petitioner would have this Court avoid all royalty payments under a license for the period of time prior to mounting a challenge to the validity of the licensed patent. That clearly goes beyond this Court's holding in *Lear*.

The second question is moot for two reasons. Both the lower courts held the patent to be invalid, therefore there was no reason to decide scope of the patent, since royalties were due under definitions in the license agreement until the petitioner was at least contesting validity.

Also, the second question is moot because the District Court in its November 2, 1978 decision did in fact decide the issue of scope of the patent, which petitioner's second question necessarily requires not to have been decided:

In particular, the District Court stated:

> "Based on all the evidence in this case, I have concluded that if the McDonald patent is valid, the Medallion process infringes it." (App. A, p. 34a).

Thus it is a clear, unequivocal statement that the petitioner's "new item" was within the scope of the claims of the licensed patent.

Conclusions

Respondents submit that the petition should be denied because there are no reasons why the writ should be granted.

Regarding only the two questions presented by petitioner for review, the Circuit Court's decision below is neither in conflict with this Court's decision in *Lear v. Adkins (supra)* nor with federal patent policy.

Wherefore, respondents respectfully request that the petition for writ of certiorari be denied.

Respectfully submitted,

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